

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16802
December 18, 2003**

R E S O L U T I O N

Resolution T-16802. SBC California (U-1001-C). Request for Approval of Price Cap Mechanism, in Compliance with Decision 89-10-031, and Corresponding Adjustments to Surcharges which will be Effective on January 1, 2004.

By Advice Letter No. 24254 Filed on October 1, 2003.

Summary

This Resolution authorizes SBC California (SBC) to decrease its annual revenues by \$3,928,000 effective January 1, 2004. A summary of the price cap filing calculation of the adopted revenue adjustment is shown in Appendix A. A summary of the adopted surcredit is shown in Appendix B.

SBC requested an annual revenue decrease of approximately \$3,928,000 due to impacts of one-time adjustment consisting of Gain on Sale of Land, Intervenor Compensation, and Tier II Payments. Because of the larger revenue decreases reflected this year than in last year's price cap resolution, the effect of SBC's proposal will lead to higher surcredits in 2004 than in bill in 2003. Customers will, therefore, pay less for service in 2004 than in 2003. The impact of SBC's proposal on bills is shown in Appendix B to this resolution.

Background

New Regulatory Framework

In Decision (D.) 89-10-031 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Pacific, which is now known as SBC, California and GTE California Incorporated (GTEC), which is now known as Verizon California Incorporated. The decision stated that prices and rate caps would be indexed annually according to the Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment.

The indexing formula allowed rate adjustments for a limited category of exogenous factors, called Z-factors, whose effects are not reflected in the GNP-PI. Only specific types of costs were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

However, the Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. In D.89-10-031, the Commission stated that normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would be excluded as Z-factor items.

The Price Cap indexing formula has been modified since being adopted in D.89-10-031. In D.94-06-011, the Commission ordered Pacific to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI), and in D.94-09-065, the Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

In 1995, the Commission issued D.95-12-052 regarding the second triennial New Regulatory Framework review and suspended the application of the GDP-PI minus productivity factor formula used in price cap regulation of Pacific and GTEC.

In October 1998, the Commission issued D.98-10-026 regarding the third triennial review of the NRF. The order continues the suspension of the GDP-PI minus productivity factor formula, suspends for the first time the sharing mechanism, permanently eliminates the depreciation review, replaces Z-factors with limited exogenous (LE) factors, and continues rate caps on residential services by keeping all rate caps and floors.

The order also specifies that, in the future, LE cost recovery is confined to recovery for cost increase or decreases resulting from (1) items mandated by the Commission and (2) changes in total intrastate recovery resulting from changes between federal and state jurisdiction. Recovery of Commission mandated cost changes must be authorized in the underlying Commission Decision.

SBC's Price Cap Filing

On October 1, 2003, SBC filed its 2004 price cap advice letter (A.L.24254) filing to comply with D.89-10-031. In this filing, SBC proposed to include the following adjustments to its revenues (reduction in parenthesis):

- **Gain on Sale of Land** **(\$570,000)**
This is a one-time adjustment to reflect the gains on sale of land.
- **Intervenor Compensation** **\$469,000**
This is a one-time adjustment to reflect recovery for participation or intervention in Commission Proceedings governed by the provisions of Division 1, Part I, Chapter 9, Article 5 (beginning with section 1807) of the Public Utilities Code.
- **Tier II Payments (OSS Performance Incentives)** **(\$3,826,000)**
This is a one-time adjustment to reflect payments to general ratepayers, including interest, as adopted by the Commission in D.02-03-023.
- **Total Revenue Adjustment** **(\$3,928,000)**

As shown above, the net result of the One-Time Other Adjustments Proposed by SBC is a decrease of \$3,928,000 in Total Revenues.

To refund this revenue to its customers, SBC requests authority to modify:

1. The current surcredit to be applied to all IntraLATA Exchange and Private Line Service with the exception of Category III Services and the taxes and surcharges currently listed in the tariffs from -1.309% to -1.377%.
2. The surcredit to be applied to all IntraLATA Toll Services currently listed in the tariffs from -1.311% to -1.379%.
3. The surcredit to be applied to all IntraLATA Access Services currently listed in the tariffs from -1.315% to -1.383%.

Notice/Protests

SBC states that a copy of the Advice Letter, and related tariff sheets were mailed to interested utilities and other parties. Notice of Advice Letter No.24254 was published in the Commission Daily Calendar on October 20, 2003.

No protests were filed.

Discussion

Gain on Sale of Land

Decision 94-06-011 adopted the settlement agreement between Pacific Bell now known as SBC and the Division of Ratepayer Advocates in Application 92-05-004 as it relates to gain on sale of land. The settlement agreement, included as Appendix B to the Decision, states that for sales which occurred in 1997 and beyond, Pacific will return 50% of the gain on sale directly to ratepayers as one-time rate adjustments in the annual Price Cap filings; the remaining 50% will go to shareholders.

SBC identified a total gain on sale of land in the amount of \$1,425,877, and consistent with the terms of the settlement, proposes to refund to ratepayers \$570,000. The Telecommunications Division recommends the adoption of SBC's request to refund to ratepayers through a one-time adjustment of (\$570,000) for the gain on sale of land.

Intervenor Compensation Recovery

Decision 96-04-063 confirmed that Pacific was entitled to recover intervenor compensation, but concluded that Pacific's rates shall remain subject to refund or adjustment pending completion of an OII. In Resolution T-16265, the Commission agreed that data provided by Pacific appeared to demonstrate that there was no recovery of intervenor compensation in the start-up revenue period. Therefore it would be equitable to allow Pacific to recover intervenor compensation, in accordance with Decision 96-04-063, where the amount shall remain subject to refund or adjustment when the OII is terminated.

During the period of September 2002 through August 2003, SBC had paid \$617,000 (including interest) for intervenor compensation awarded by the Commission. After applying the applicable intrastate separations factor of 0.759, SBC request recovery of \$469,000. The Telecommunications Division recommends the adoption of SBC's request to recover intervenor compensation through a one-time adjustment of \$469,000.

Tier II Payments

Decision 02-03-023 established monetary performance incentives for an incumbent local exchange carrier (LEC) to give competitors equitable access to the LEC's Operations Support Systems (OSS) infrastructure. Under the Commission's incentive plan, there are two types of payments for OSS performance levels that fall below Commission approved performance standards: Tier I which are generally paid to individual Competitive Local Exchange Carriers and Tier II payments which are paid to general ratepayers.

Tier II payments are calculated throughout the year and placed monthly into an interest bearing escrow account and remitted to ratepayers in the subsequent year in the form of a billing surcredit. A 2004 Tier II payment in the amount of (\$3.826) million for 2003 had been developed consistent with the methodology adopted by the Commission in D.02-03-023. The Telecommunications Division recommends the adoption of SBC's request to remit to ratepayers through the one-time adjustment of (\$3.826) million for the Tier II payments.

Gross Domestic Product Price Index:

During last year's price cap filing, it was recommended that SBC should include its inflation factor, the Gross Domestic Product Price Index (GDP-PI), as part of its workpapers. ORA noted that the GDP-PI is a necessary component to update price floors. SBC provided the GDP-PI data as part of its 2004 price cap filing.

Price Floor Update:

In 2003 price cap resolution T-16717, it was recommended that SBC revise its price floor update format in subsequent price cap filings and include the following information for each of the services:

- The line number
- The cost basis
- Whether imputation is required
- Current average unit revenue
- Current price floor
- Proposed price floor
- Difference between current average unit revenue and the proposal price floor

SBC provided the Price Floor update in the format mentioned above and adopted in 2003 price cap resolution T-16717. The Telecommunications Division has reviewed SBC's requested price floors, and found them reasonable, and recommends that they be adopted.

Impact of Adopted Changes

For the year 2003, SBC was required to refund to customers \$762,000 for adjustments that expired or ceased at the end of the year 2003. The \$3,928,000 revenue reduction adopted here is large enough and accordingly, the surcredit on customer bills will be higher as shown in Appendix B of this resolution. The effect of the higher surcredit is that customers will pay slightly less for telephone service in 2004 than they paid in 2003.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g)(2), the otherwise applicable 30-day

period for public review and comment is being waived.

Findings

1. On October 1, 2003, SBC filed its price cap filing A.L. No. 24254, and requests the following one-time adjustments in its revenues:

• Gain on Sale of Land	(\$570,000)
• Intervenor Compensation	\$469,000
• Tier II Payments	(\$3,826,000)
• Total Revenue Adjustment	<hr/> (\$3,928,000)

2. SBC proposes that its billing base for calculating the 2004 surcharge/surcredit is \$4,804,087,000.
3. SBC requests to adjust the \$3,928,000 decrease in revenue requirements by applying:
 - a) -1.377% surcredit to local exchange services with the exceptions of Category III Services, access charges listed in Schedule No. 1, and surcharges currently listed in Pacific's tariffs.
 - b) -1.379% surcredit to intraLATA toll (Schedule No. A2)
 - c) -1.383% surcredit to access services (Schedule No. A2)
4. We find reasonable and adopt SBC's request to refund the ratepayers through a one-time adjustment of (\$570,000) for the gain on sale of land.
5. We find reasonable and adopt SBC's request to recover intervenor compensation through a one-time adjustment in the amount of \$469,000.
6. We find reasonable and adopt SBC's request to remit to ratepayers through the one-time adjustment of (\$3,826,000) for the Tier II payments.
7. SBC provided additional information in the table reflecting price floor adjustments and included the GDP-PI as part of its work papers.
8. The revenue adjustments associated with Gain of Sale of Land, Intervenor Compensation, and Tier II Payments result in a net revenue decrease of \$3,928,000 to be applied to local, toll, and access services are summarized in Appendix A to this resolution.

THEREFORE, IT IS ORDERED that:

1. SBC California shall decrease its annual revenues by the total proposed revenue adjustment of \$3,928,000.
2. SBC shall implement billing surcredits reflecting the revenue decrease ordered in Ordering Paragraph 1, applied to a total billing base of \$4,804,087,000 for intraLATA exchange and private line services, intraLATA toll services, and intraLATA access service, to become effective on January 1, 2004, subject to review and approval by the Commission's Telecommunications Division. Adopted surcredits are shown in Appendix B.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on December 18, 2003. The following Commissioners approved it:

/s/ WILLIAM AHERN

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A
Resolution T-16802
SBC California
2004 Price Cap Filing

One-Time Other Adjustments	SBC Proposed Revenue Impacts	Adopted Impacts
Gain on Sale of Land	\$ (570,000)	\$ (570,000)
Intervenor Compensation	\$ 469,000	\$ 469,000
Tier II Payments	\$ (3,826,000)	\$ (3,826,000)
Total	\$ (3,928,000)	\$ (3,928,000)

APPENDIX B
Resolution T-16802
SBC, California
2004 Price Cap Filing

	Current Surcredit	SBC Proposed Surcredit	Adopted Surcredit
Access	(1.315%)	(1.383%)	(1.383%)
Local	(1.309%)	(1.377%)	(1.377%)
Toll	(1.311%)	(1.379%)	(1.379%)